Why go to school?

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Governments are too often urged to actively promote formal school and college education among citizens. Many even go on to say that it is the basic duty of the government to make sure every child is given quality education at least until a certain age, and parents should be held accountable for it. If not, several experts argue, the fruits of education may never reach a vast majority of the population who are ignorant of its immense economic benefits.

“Economic Freedom and Human Capital Investment,” a 2017 paper by Horst Feldmann published in the *Journal of Institutional Economics*, however, offers an alternative view of how education works. Feldmann argues that education is no different from any other investment that seamlessly occurs whenever people are given the **economic freedom** to fully enjoy its benefits. There might then be very little need for a government to actively promote education among citizens, as they are likely to invest in it anyway. After all, when the right conditions exist, investment in education should happen just as a matter of course. In fact, Feldmann argues, this is very similar to how investment in physical capital works.

A factory, for instance, gets built whenever taxes are not too high and laws not too burdensome to discourage investors. Low taxes and stable property rights encourage investors to invest in risky ventures without any unreasonable fear about the future. Similarly, the author argues, people will invest in education whenever they are granted the economic freedom to fully enjoy its benefits. Again, this is for the obvious reason that the return on education increases as the level of economic freedom rises. When people, thanks to lower tax rates, are allowed to retain most of the higher income that they gain from each incremental level of education, it makes emminent sense to invest in education. On the other hand, when the government decides to tax the higher incomes of educated individuals at even higher rates, it makes very little sense to invest in educating oneself further. The same incentives apply to parents who decide on whether to invest in their children's education.

Feldmann in his study uses data on enrolment in secondary education in a total of 109 countries over four decades as a proxy to measure the effect of economic freedom, as measured by the “Economic Freedom of the World” index, on capital investment. He finds that economic freedom indeed has a substantial positive impact on building up human capital. Meanwhile, poverty is quite often cited to invalidate this argument. Many poor families, after all, cannot afford to invest in education. On this point, the author argues that poor families will find it far easier to access capital markets when there is greater economic freedom. Investors looking for profits are more likely to invest in funding a poor child’s education when their returns on such investment are enhanced by economic freedom.

The new U.S. Fed Chairman is unlikely to opt for policies that might upset the President’s plan

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